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Rising Trade Balance Hints At Weakening Economy In Japan

President Bush repeatedly has pointed to America's surging exports as a source of strength for the U.S. economy. But, with equal fervor, Bill Clinton as the Democrats' presidential candidate has implied that the preponderance of imports over exports is a source of economic weakness. If politicians in Japan applied either argument to that country's latest trade figures, they might have seen reason to brag. In 1992's third quarter Japan's dollar-denominated customs-clearance trade surplus rose a sizable 29.4 percent, pushed up by a 10.4 percent increase in exports (see Tables 1 and 2).

Few, if any, Japanese politicians took to the airwaves to claim credit, however. In fact, most probably viewed the data with some private despair — and not just because the numbers threatened to become grenades in the arsenal of critical American politicians. Both export and import figures illustrated some of the problems facing the Japanese economy. A Tokyo politician wanting to avoid controversy could be forgiven for hoping that the numbers would be ignored on both sides of the Pacific.

Virtually the entire 10.4 percent increase in exports was accounted for by the 9.3 percent appreciation of the yen between July-September 1991 and the third quarter of this year. The volume of exports rose a puny 0.8 percent, substantially below the rate expected from the growth of overseas markets alone. The strong yen, which reduces the profitability of export markets, appeared to put a brake on expected growth rates. Given that the Japanese currency has remained strong in October and that foreign economies continue to be weak, export sales are unlikely to rebound within the next few months. This suggests that foreign demand probably will not give the Japanese economy much of a boost.

Table 1: **Japan's Total Trade in Dollar Terms**

(in millions of dollars)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		$229,221	9.6%	$149,515	18.3%	$79,706
1988		264,917	15.6	187,354	25.3	77,563
1989		275,175	3.9	210,847	12.5	64,328
1990		286,948	4.3	234,799	11.4	52,149
1991		314,525	9.6	236,737	0.8	77,788
1990:	I	66,705	-2.2	54,383	6.3	12,322
	II	67,232	-0.5	53,954	5.2	13,278
	III	72,189	3.7	56,547	6.6	15,642
	IV	80,822	15.9	69,914	26.3	10,908
1991:	I	76,338	14.4	61,869	13.8	14,469
	II	73,992	10.1	56,283	4.3	17,709
	III	79,065	9.5	57,097	1.0	21,968
	IV	85,131	5.3	61,487	-12.1	23,644
1992:	I	82,444	8.0	57,429	-7.2	25,015
	II	80,871	9.3	56,840	1.0	24,031
	III (p)	87,264	10.4	58,832	3.0	28,432

Table 2: **Japan's Total Trade in Yen Terms**

(in billions of yen)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		¥33,315	-5.6%	¥21,737	0.9%	¥11,578
1988		33,939	1.9	24,006	10.4	9,933
1989		37,823	11.4	28,979	20.7	8,844
1990		41,457	9.6	33,855	16.8	7,602
1991		42,360	2.2	31,900	-5.8	10,460
1990:	I	9,766	12.2	7,941	21.9	1,825
	II	10,449	13.3	8,392	19.9	2,057
	III	10,651	7.5	8,364	10.8	2,287
	IV	10,592	6.1	9,159	15.7	1,433
1991:	I	10,183	4.3	8,257	4.0	1,926
	II	10,225	-2.1	7,775	-7.4	2,450
	III	10,853	1.9	7,846	-6.2	3,007
	IV	11,099	4.8	8,023	-12.4	3,076
1992:	I	10,523	3.3	7,317	-11.4	3,206
	II	10,613	3.8	7,470	-3.9	3,143
	III (p)	10,951	0.9	7,393	-5.8	3,558

Table 3: **Japan's Trade with the United States in Dollar Terms**

(in millions of dollars)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		$83,580	3.9%	$31,491	8.4%	$52,090
1988		89,634	7.2	42,037	33.5	47,597
1989		93,189	4.0	48,246	14.8	44,943
1990		90,322	-3.1	52,369	8.5	37,954
1991		91,538	1.3	53,317	1.8	38,220
1990:	I	21,661	-4.7	12,753	9.9	8,908
	II	20,938	-9.0	12,861	6.6	8,077
	III	22,933	-4.9	12,729	2.1	10,204
	IV	24,790	6.2	14,025	15.7	10,765
1991:	I	22,311	3.0	13,268	4.0	9,043
	II	20,304	-3.0	13,464	4.7	6,840
	III	23,719	3.4	13,185	3.6	10,534
	IV	25,205	1.7	13,401	-4.4	11,804
1992:	I	22,771	2.1	13,528	2.0	9,243
	II	22,121	9.0	12,765	-5.2	9,356
	III (p)	24,808	4.6	13,006	-1.4	11,802

Table 4: **Japan's Trade with the United States in Yen Terms**

(in billions of yen)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		¥12,148	-10.4%	¥4,582	-6.8%	¥7,566
1988		11,487	-5.4	5,388	17.6	6,099
1989		12,816	11.6	6,632	23.1	6,184
1990		13,057	1.9	7,586	14.4	5,471
1991		12,324	-5.6	7,191	-5.2	5,133
1990:	I	3,171	9.4	1,862	26.0	1,309
	II	3,254	3.7	2,000	21.4	1,254
	III	3,384	-1.5	1,885	6.3	1,498
	IV	3,249	-2.8	1,838	6.1	1,411
1991:	I	2,977	-6.1	1,770	-4.9	1,207
	II	2,806	-13.8	1,860	-7.0	946
	III	3,255	-3.8	1,812	-3.9	1,443
	IV	3,287	1.2	1,749	-4.8	1,538
1992:	I	2,905	-2.4	1,725	-2.5	1,180
	II	2,904	3.5	1,677	-9.8	1,227
	III (p)	3,113	-4.4	1,634	-9.8	1,479

The import numbers are as worrisome for government and business analysts in Japan as the export figures. Dollar-denominated imports rose 3 percent in the July-September period from a year earlier, but currency fluctuations explained all that apparent growth and then some. In reality, the volume of imports decreased 1.4 percent. Compared with other Japanese economic indicators, however, this decline was relatively modest. Industrial production, for example, dropped a preliminary 6.2 percent in the third quarter from a year earlier, suggesting that imports probably gained market share in a weak economy. The tentative conclusion is that the strong yen is lifting imports above levels they otherwise would reach at precisely the time when firms that compete with imports are feeling most beleaguered. Together with the weak export numbers, the import data suggest that the yen's strength is exacerbating the recession from the standpoint of Japanese manufacturers.

The latest quarterly figures on trade with the United States are equally discouraging from a Japanese perspective (see Tables 3 and 4). The data suggest that Japan's surplus, as measured by either dollars or yen, continued to increase through September, with the full quarter imbalance rising 12 percent as measured in dollars. Tokyo was spared a fusillade of criticism from Washington or the political hustings, since American politicians seldom use Japanese data concerning the bilateral imbalance to make their arguments even when, as in this case, the comparable U.S. numbers will not be available until after the November 3 elections. While Japanese bilateral volume data are not directly available, the weak growth on both sides of the trade ledger, coupled with a stronger yen, suggest that import and export volumes both declined in the July-September period from the year-earlier level. The underlying economic weakness in both countries that contributed to the decline in Japan-U.S. trade hardly counts as a political plus in either Tokyo or Washington.

Douglas Ostrom

Japan Raises Concerns About North American Trade Pact

When the trade ministers of the United States, Canada and Mexico symbolically strengthened a commitment to more closely link their three economies by initialing the text of the North American Free Trade Agreement October 7, Japan and other third countries were distant, but not disinterested, observers. Since the mid-August completion of the NAFTA talks representatives of countries that are not a party to NAFTA increasingly have voiced concerns about the proposed pact. Although Japanese government officials expressed support in principle for the free trade arrangement, they emphasized that the accord should bolster the international trade system and not impose barriers to nonparticipants pursuing trade and investment opportunities in the region (see *JEI Report* No. 32B, August 21, 1992). Japan's ambassador to the United States, Takakazu Kuriyama, conveyed his government's apprehensions about the new free trade arrangement in a letter to U.S. Trade Representative Carla Hills this summer. In several forums since then Japanese officials have reiterated their concerns regarding the potential impact of NAFTA on worldwide trade.

In a late September meeting of the Pacific Economic Cooperation Council in San Francisco Parliamentary Vice Minister for Foreign Affairs Koji Kakizawa cautioned: "Utmost care is necessary in order to prevent regional integration from leading to external discrimination and the formation of regional trade blocs." He added, "Questions have begun to be asked whether the United States ... has shifted its emphasis from a global to a regional approach." Possible discrimination against third countries under the new trade agreement, which still must be approved by the legislatures of the three participants, was among the issues raised by Japanese officials during the September 30-October 2 meeting of the U.S.-Japan Trade Committee (see *JEI Report* No. 38B, October 9, 1992).

Moreover, in an October 21 meeting with visiting Canadian business and political leaders Prime Minister Kiichi Miyazawa directly addressed Japanese concerns about the North American free trade arrangement. He repeated Tokyo's conviction that NAFTA should be consistent with international trade rules under the General Agreement on Tariffs and Trade. The prime minister was